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HALIFAX DEVELOPMENTS LIMITED ANNUAL REPORT 1976



DIRECTORY

BOARD OF DIRECTORS

H. P. Connor	Chairman of the Board, National Sea Products Limited
*A. R. Harrington	Business Executive
*David J. Hennigar	Atlantic Regional Director, Burns Fry Limited
J. J. Jodrey	President, Minas Basin Pulp & Power Company Limited
J. H. Mowbray Jones	Vice-Chairman of the Board, Hermes Electronics Limited
L. A. Kitz, Q.C.	Senior Partner, Kitz, Matheson, Green & MacIsaac
M. H. D. McAlpine	President, Robert McAlpine Limited
J. T. MacQuarrie, Q.C.	Partner, Stewart, MacKeen & Covert
H. B. Rhude, Q.C.	Lawyer
W. H. Richardson	President, Balcom -Chittick Limited
*Donald R. Sobey	President, Halifax Developments Limited
F. H. Sobey	Honorary Chairman of the Board, Sobeys Stores Limited

*Members of Audit Committee

OFFICERS

J. J. Jodrey	Chairman of the Board
D. R. Sobey	President
D. B. Hyndman	Executive Vice-President and Secretary
A. R. Harrington	Vice-President
L. A. Kitz	Vice-President
J. M. Doull	Vice-President, Operations

BANK

The Bank of Nova Scotia

SOLICITORS

Kitz, Matheson, Green & MacIsaac;
Stewart, MacKeen & Covert

AUDITORS

H. R. Doane and Company

TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company, Halifax, Montreal, Toronto, Calgary

LISTED

Toronto Stock Exchange

HEAD OFFICE

Barrington Tower, Scotia Square, Halifax, Nova Scotia

FINANCIAL HIGHLIGHTS

	1976	1975	1974	1973	1972
Gross Income	\$8,900,743	\$8,154,126	\$7,254,678	\$6,002,023	\$5,436,028
Income before Income Taxes and Extraordinary Income	\$ 528,524	\$ 527,706	\$ 307,367	\$ 139,950	\$ 8,118
Per Share	12¢	12¢	7¢	3¢	—
Extraordinary Income	—	—	—	\$ 249,868	—
Deferred Income Taxes	\$ 249,055	\$ 271,355	\$ 156,055	—	—
Net Income	\$ 279,469	\$ 256,351	\$ 151,312	\$ 389,818	\$ 8,118
Per Share	6¢	6¢	4¢	9¢	—
Cash Flow	\$1,121,101	\$1,033,331	\$ 745,062	\$ 635,345	\$ 372,141
Per Share	26¢	24¢	17¢	15¢	10¢
Average Shares Outstanding	4,319,705	4,319,705	4,299,552	4,128,135	3,654,944
Shareholders' Equity	\$8,735,586	\$8,542,511	\$8,372,554	\$7,970,242	\$6,872,448
Book Value Per Share	\$ 2.02	\$ 1.98	\$ 1.94	\$ 1.89	\$ 1.76

REPORT TO SHAREHOLDERS

Total revenue and assets increased to record levels in the year ended December 31, 1976, while net income increased to \$279,469 from \$256,351. Cash flow amounted to \$1,121,101 or 26¢ per share compared to \$1,033,331 or 24¢ per share the previous year.

A second annual dividend of 2¢ per share was paid on the common shares on June 14th, 1976.

During the past year several major projects in the Halifax Metropolitan area were completed, and this, combined with a slowdown in demand for office space, has resulted in a surplus of unleased space. Nevertheless, Scotia Square itself and the surrounding buildings continue to be the prime location available and are well occupied. The Duke and Barrington Office Towers are fully leased and it is anticipated that Cogswell Tower will approach that level by the end of the current year.

Scotia Mall continues to be a successful shopping centre. As our immediate area continues to expand, the customer base for our Mall increases accordingly, and we expect that sales will again set new records in 1977.

A considerable softening of demand for apartments in the summer, combined with rent controls, affected the results of both MacKeen and Scotia Towers during the last half of 1976. Occupancy rates actually fell during this period. This trend has reversed and we are hopeful for somewhat improved results in the current year from the residential buildings.

For the first time in eight years of operation, Halifax Parking Limited, a wholly owned subsidiary, made a small contribution to profits. It is anticipated that with the opening of new buildings in the area and the completion of Metro Centre, our parkade utilization will be improved. This Company has also assumed the management of the parking facilities at the Halifax International Airport.

Durham Leaseholds Limited, a joint venture with Oxford Development Group Limited, is active in the development of our adjoining properties. The Bank of Commerce Tower will open in mid 1977 and it is expected that work will commence on the next phase of Granville Mews in the very near future.

As mentioned above, the excess office space available in the Metro area will have a depressing effect on rentals in the City. We feel, however, that our location in the core of the major activity will help to protect us against adverse vacancy levels.

At this time it is appropriate to remember that the employees of your Company have worked hard through this difficult period. On behalf of the Directors and Shareholders, we wish to thank them for their continuing efforts.

Chairman



President



CONSOLIDATED STATEMENT OF INCOME

	December 31	
	1976	1975
Gross income	\$8,900,743	\$8,154,126
Operating expenses	5,321,240	4,758,942
	3,579,503	3,395,184
Interest on long-term debt	2,511,317	2,419,731
	1,068,186	975,453
Depreciation	500,012	426,900
Amortization	92,565	78,725
	592,577	505,625
	475,609	469,828
Investment income	52,915	57,878
Income before income taxes	528,524	527,706
Deferred income taxes	249,055	271,355
Net income	\$ 279,469	\$ 256,351
Earnings per share (Note 6)	\$.06	\$.06

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	December 31	
	1976	1975
Retained earnings, beginning of year	\$591,018	\$421,061
Net income	279,469	256,351
	870,487	677,412
Dividends	86,394	86,394
Retained earnings, end of year	\$784,093	\$591,018

Consolidated

ASSETS	December 31	
	1976	1975
Receivables	\$ 856,855	\$ 553,001
Prepaid expenses	166,273	57,555
Performance deposits	151,000	150,000
Investment in corporate joint venture (Note 2)	453,145	561,480
Land, buildings and equipment (Note 3)	46,664,493	45,896,923
Unamortized bond discount and expenses (Note 1)	601,340	644,276
Deferred charges, less amortization \$71,596 (Note 1)	38,133	66,925
Excess of purchase cost of subsidiary over net book value of assets acquired (Note 5)	206,907	218,402
	\$49,138,146	\$48,148,562

On Behalf of the Board

Danell Avery

Director

Al Barrington

Director

The accompanying notes form part of this statement.

HALIFAX DEVELOPMENTS LIMITED

Balance Sheet

LIABILITIES	December 31	
	1976	1975
Bank indebtedness	\$ 1,554,681	\$ 438,223
Payables and accruals	1,103,781	1,173,770
Income debenture, due September 30, 1977	2,000,000	2,000,000
Long-term debt (Note 4)	35,067,633	35,566,648
Deferred income taxes	676,465	427,410
	40,402,560	39,606,051
<hr/>		
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)		
Authorized — 5,000,000 common shares without nominal value		
Issued and outstanding — 4,319,705 common shares	7,951,493	7,951,493
Retained earnings	784,093	591,018
	8,735,586	8,542,511
	\$49,138,146	\$48,148,562

AUDITORS' REPORT

To the Shareholders of Halifax Developments Limited

We have examined the consolidated balance sheet of Halifax Developments Limited and its subsidiary as at December 31, 1976 and the consolidated statements of income, retained earnings, and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. R. Doane and Company
Chartered Accountants

Halifax, Nova Scotia
February 12, 1977

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

December 31

1976

1975

Source		
Operations		
Net income	\$ 279,469	\$ 256,351
Depreciation	500,012	426,900
Amortization	92,565	78,725
Deferred income taxes	249,055	271,355
Cash flow from operations	1,121,101	1,033,331
Proceeds from mortgage loan		1,800,000
Scotia Square Hotel Limited receivable		1,780,964
Increase in current bank indebtedness	1,190,000	198,742
Reduction in investment in corporate joint venture	150,000	
Increase in long-term bank loans	32,000	
	2,493,101	4,813,037
Application		
Increase in investment in corporate joint venture	41,665	376,628
Land, buildings and equipment	1,267,582	2,214,586
Deferred charges	9,342	100,387
Repayment of long-term debt	477,204	383,632
Decrease in long-term bank loans	53,811	491,203
Dividends	86,394	86,394
Net change in other assets and liabilities	483,561	1,265,945
	2,419,559	4,918,775
Increase (decrease) in cash	\$ 73,542	\$ (105,738)
Cash flow from operations per share (Note 6)	\$.26	\$.24

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

- (a) The company is a member of the Canadian Institute of Public Real Estate Companies. The company's accounting policies and its standards of disclosure are in accordance with the recommendations of that institute in all material respects.
- (b) The accounts of the subsidiary company, Halifax Parking Limited, have been included in the consolidated financial statements and Durham Leaseholds Limited, a corporate joint venture, is accounted for herein using the equity method of accounting.
- (c) The company capitalizes expenses (net of revenues) as long as a particular project remains in the development stage. For the year ended December 31, 1976 this amounted to \$857,131 (1975 — \$909,938).
- (d) Depreciation on buildings is recorded on a 5%, forty year sinking fund basis. The depreciation charge increases annually and consists of a fixed annual sum together with an amount equivalent to interest compounded at the rate of 5% so as to fully depreciate the building over the forty year period. The depreciation charged on the buildings in the fortieth year will be approximately seven times the amount charged in the first year.
- (e) Amortization of the bond discount and expenses is recorded using the straight-line basis over the term of the respective bond issue.
- (f) The deferred charges are being amortized over a 3 year period.
- (g) The company follows the tax allocation basis of accounting. Accordingly, full provision is made for income taxes that are deferred primarily as a result of the timing difference between the depreciation provided for accounting purposes and that claimed for income tax purposes.

2. Investment in corporate joint venture

The company's 50% interest in the corporate joint venture, Durham Leaseholds Limited, is accounted for on the equity basis and is made up as follows:

	1976	1975
Shares, at cost	\$ 150	\$ 150
Share of earnings, equity basis	160,495	118,830
10% capital notes, at cost	112,500	112,500
Demand notes, at cost	180,000	330,000
	<hr/>	<hr/>
	\$453,145	\$561,480
	<hr/>	<hr/>

The shares and the 10% capital notes have been lodged with a trustee as security for the bondholders.

A property owned by Durham Leaseholds Limited was expropriated by the Province of Nova Scotia on December 19, 1975. The compensation to be received for the property has not been determined.

3. Land, buildings and equipment

	1976	1975
Buildings and equipment	\$37,945,057	\$37,632,850
Less accumulated depreciation	2,511,736	2,011,724
	<hr/>	<hr/>
Land	35,433,321	35,621,126
Construction in progress	1,721,260	1,722,816
	9,509,912	8,552,981
	<hr/>	<hr/>
	\$46,664,493	\$45,896,923
	<hr/>	<hr/>

The company is constructing and developing a real estate complex known as "Scotia Square" on approximately 19 acres of land in the City of Halifax. The complex is comprised of shopping malls, offices, apartments, parkades and a hotel. The latest segment of the complex to be completed was Cogswell Tower (offices). Cogswell Tower is still in the development stage and accordingly its net operating results have been capitalized in the accounts for the current year.

4. Long-term debt

		1976	1975
8%	First Mortgage Bonds, First Series, due April 1, 1996 repayable in level monthly installments of \$91,585 principal and interest.	\$10,859,839	\$11,094,103
	Additional interest calculated at 4 1/4% of gross annual rentals from specifically mortgaged premises, is payable at not less than \$100,000 nor more than \$150,000 in any one fiscal year of the company.		
9 1/8%	First Mortgage Bonds, Second Series, due October 1, 1988 repayable in level monthly installments of \$52,095 principal and interest.	6,338,506	6,393,270
8 1/4%	First Mortgage loan repayable in level monthly installments of \$17,533 principal and interest to July 1, 1993.	1,910,399	1,963,466
9%	First Mortgage loan repayable in level monthly installments of \$22,436 principal and interest to April 1, 2000.	2,645,546	2,676,678
10 1/2%	First Mortgage loan repayable in level monthly installments of \$16,118 principal and interest to October 20, 2005.	1,789,614	1,798,591
8%	General Mortgage Sinking Fund Bonds, Series A, due August 1, 1993.	2,760,000	2,820,000
8%	General Mortgage Sinking Fund Bonds, Series B, due December 31, 1994.	955,000	970,000
9 3/4%	General Mortgage Sinking Fund Bonds, Series C, due April 1, 1999. Sinking fund payments commence in 1979.	2,000,000	2,000,000
	Convertible subordinated debentures, Series D, due August 16, 1993. Debentures may be converted into common shares of the company on the basis of 400 shares for every \$1,000 principal up to May 16, 1978, and 285 shares for every \$1,000 principal after May 16, 1978 to August 16, 1993.	360,000	360,000
	Bank loan; principal repayments of \$52,000 per year	119,404	139,404
	Interim bank loans on Cogswell Tower	5,329,325	5,351,136
		\$35,067,633	\$35,566,648

Estimated principal and sinking fund payments required during the next five years are as follows:

1977	\$544,000
1978	\$580,000
1979	\$636,000
1980	\$672,000
1981	\$720,000

The bank indebtedness is secured by a general assignment of the receivables.

5. Halifax Parking Limited

Halifax Parking Limited, the wholly owned subsidiary which operates the parkade owned by the company, was acquired in 1974. The acquisition has been accounted for by the purchase method and the purchase cost in excess of net book value of assets acquired was \$229,897. This amount is being charged against operations using the straight-line method over a period of 20 years. The accumulated amortization to December 31, 1976 is \$22,990.

6. Capital stock

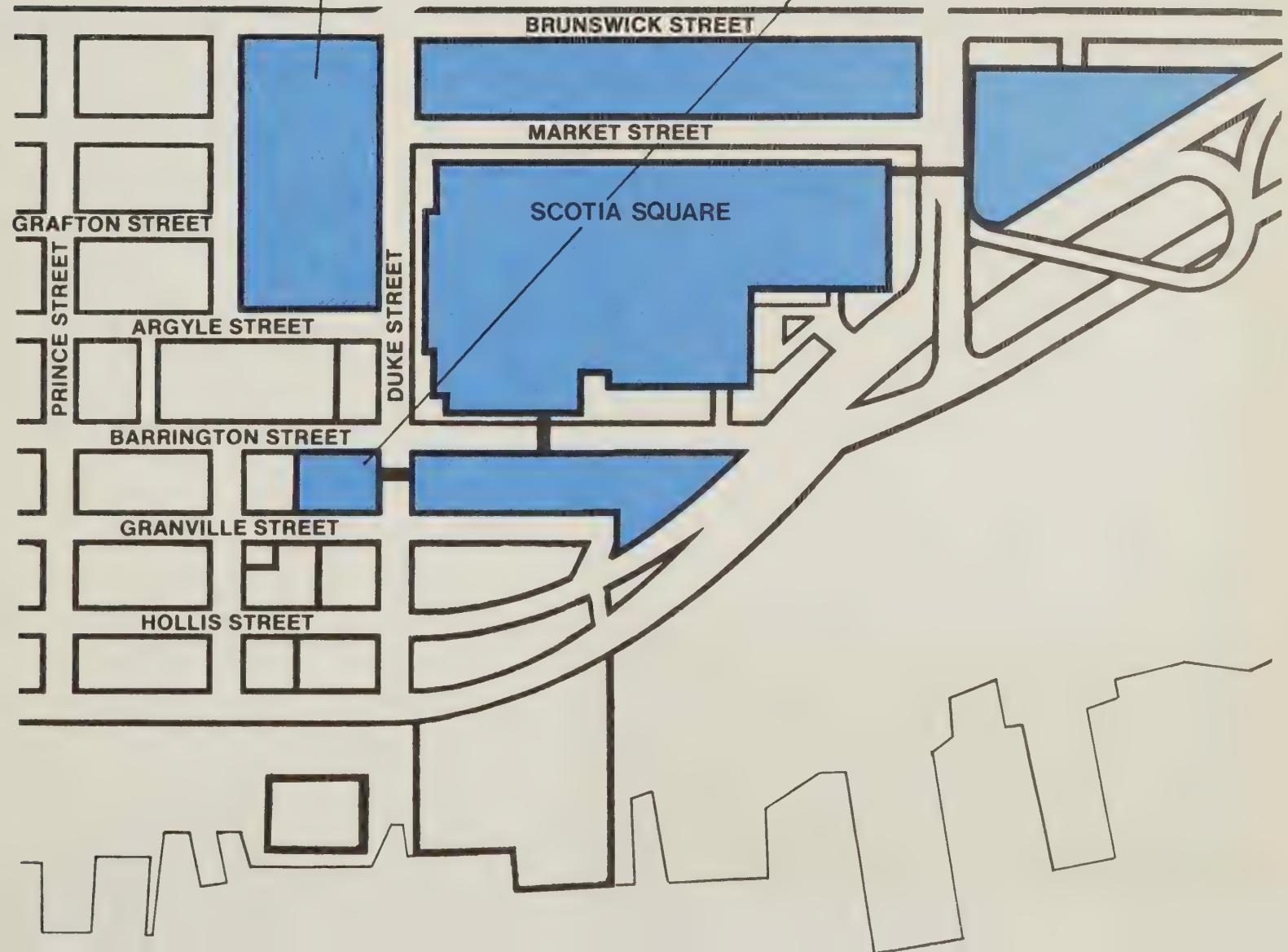
144,000 common shares have been reserved to provide for conversion of the convertible subordinated debentures.

Fully diluted earnings per share for the year are \$.06 and cash flow per share on a fully diluted basis is \$.25.

7. Contingent liabilities

The company has a contingent liability of \$750,000 relating to the guarantee of the bank indebtedness of Durham Leaseholds Limited.

OUR CHANGING NEIGHBOURHOOD





HALIFAX DEVELOPMENTS LIMITED

P O Box 966, Halifax, Nova Scotia, (902) 429-3660

AR01



HALIFAX
DEVELOPMENTS
LIMITED

SEMI-
ANNUAL REPORT
SIX MONTHS ENDED
JUNE 30TH, 1976

HALIFAX DEVELOPMENTS LIMITED

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	SIX MONTHS ENDED JUNE 30	
	1976	1975
Gross Income	\$4,152,961	\$3,705,789
Operating Expense	2,504,458	2,224,887
	<hr/>	<hr/>
Interest on Long Term Debt	1,648,503	1,480,902
	1,262,267	1,161,078
	<hr/>	<hr/>
Depreciation	386,236	319,824
Amortization	237,918	200,396
	36,421	20,698
	<hr/>	<hr/>
Investment Income	274,339	221,094
	<hr/>	<hr/>
Income before Income Taxes	111,897	98,730
Deferred Income Taxes	5,625	5,625
Net Income	117,522	104,355
	61,953	52,177
	55,569	52,178
	<hr/>	<hr/>
Income Per Share	1.3¢	1.2¢
	<hr/>	<hr/>
Cash Flow Per Share from Operations	9.1¢	7.5¢
	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF CASH

(UNAUDITED)

SOURCE

	SIX MONTHS ENDED JUNE 30	
	1976	1975
Operations		
Net Income	\$ 55,569	\$ 52,178
Depreciation	237,918	200,396
Amortization	36,421	20,698
Deferred Income Taxes	61,953	52,177
	<hr/>	<hr/>
Receivable, Scotia Square Hotel Limited	391,861	325,449
Sale of affiliated company notes	—	1,780,964
Bank Loan	150,000	—
	1,805,373	671,872
	<hr/>	<hr/>
	\$2,347,234	\$2,778,285

APPLICATION

	\$	\$
Increase in deferred charges	10,089	—
Acquisition of fixed assets	629,810	1,381,567
Repayment of Long Term Debt	243,426	329,578
Dividends	86,394	86,395
	<hr/>	<hr/>
Net increase in current receivable and prepaid expenses over current payables	1,251,146	962,780
Increase in cash	126,369	17,965
	<hr/>	<hr/>
	\$2,347,234	\$2,778,285

To Our Shareholders

Net income after deferred taxes for the six months ended June 30, 1976 was \$55,569 as compared to \$52,178 for the same period last year. Cash flow from operations was \$391,861 or 9.1¢ per share compared to \$325,449 or 7.5¢ in 1975.

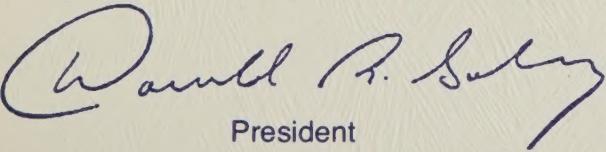
A dividend of 2¢ per share was paid June 15, 1976 being the second annual dividend of your company.

The first half of 1976 saw the start up of your company's environmental computer control system which puts the company in the forefront of energy conservation in North America. This is particularly important in Nova Scotia as 80-85% of our electric energy is produced by fossil fuel (oil or coal). The initial period of operation of the system shows a decrease of 11% in kilowatt hour consumption over the same period last year despite the addition of Cogswell Tower to the operating load. The cover of this report shows the control console of the computer with related machinery in the background.

Cogswell Tower, our third office tower, is renting at a satisfactory rate and should be fully leased early in 1977. In line with recommendations of the Canadian Institute of Public Real Estate Companies, losses during the phase-in on new buildings are capitalized. For the first time the six months results include the operation of MacKeen Tower. It is anticipated that Cogswell Tower will be reflected only in the last quarter of this year.

Durham Leaseholds Limited, fifty percent owned by your company, has started construction on the Bank of Commerce Building which is phase one of Granville Place, a fifty million dollar project, immediately adjacent to Scotia Square. This phase incorporates the Atlantic Regional Office of The Bank and will have in total over two hundred thousand square feet of leasable area. Other phases will include an office tower and a shopping mall directly connected to Scotia Square.

Durham had been the owners of two lots of land immediately south of Scotia Square which were expropriated by the Province of Nova Scotia for the construction of Metro Centre, a ten thousand seat multi-use sports, convention and exhibition centre.



Donald R. Sibley

President

